

## Message Text

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ORIGIN TRSE-00

INFO OCT-01 EUR-12 IO-13 ISO-00 AGRE-00 CEA-01 CIAE-00  
COME-00 DODE-00 EB-08 FRB-03 H-01 INR-10 INT-05  
L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05  
SS-15 STR-07 ITC-01 ICA-11 SP-02 SOE-02 OMB-01  
DOE-15 AF-10 ARA-10 EA-10 NEA-11 OIC-02 /169 R

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COMMERCEGARDNER  
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P R 222338Z MAY 78  
FM SECSTATE WASHDC  
TO USMISSION GENEVA PRIORITY  
INFO AMEMBASSY HELSINKI

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E.O. 11652:N/A

TAGS: ETRD, GATT, FI

SUBJECT: GATT BOP CONSULTATION WITH FINLAND

1. FOLLOWING ARE INSTRUCTIONS FOR USE OF USDEL TO UP-  
COMING GATT BOP CONSULTATIONS WITH FINLAND.
2. PROBLEM: GATT BALANCE OF PAYMENTS COMMITTEE WILL MEET  
IN GENEVA MAY 23 TO CONSIDER FINLAND'S TRADE SYSTEM IN  
LIGHT OF ITS BOP SITUATION AND PROSPECTS. GUIDANCE IS  
NEEDED FOR THE US DELEGATION.  
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3. RECOMMENDATION: US REPRESENTATIVE SHOULD AS APPRO-  
PRIATE MAKE THE POINTS AND POSE THE QUESTIONS CONTAINED  
IN FOLLOWING PARAGRAPHS.

(A) THE UNITED STATES NOTES THE CONSIDERABLE IMPROVEMENT  
IN FINLAND'S BALANCE OF PAYMENTS POSITION AND FOREIGN  
CURRENCY RESERVE LEVELS. WE HOPE THIS IMPROVEMENT WILL  
CONTINUE.

(B) WE APPRECIATE THE FORTHCOMING AND COOPERATIVE

FINNISH ATTITUDE IN CONDUCTING THESE CONSULTATIONS.

(C) HOWEVER, WE NOTE THAT FINLAND STILL MAINTAINS A SYSTEM OF QUOTAS AND LICENSING WHICH IT JUSTIFIES ON BOP GROUNDS. THE IMF STAFF HAS EXPRESSED THE BELIEF THAT IT WILL BECOME DIFFICULT TO SO JUSTIFY THEM AS BALANCE OF PAYMENTS IMPROVES. WE THEREFORE URGE FINNISH GOVERNMENT TO ESTABLISH A SCHEDULE FOR THEIR ELIMINATION AND IN THE MEANTIME TO ENLARGE THE QUOTAS TO REDUCE THEIR RESTRICTIVE EFFECT.

(D) THE US DELEGATE SHOULD SUPPORT A COMMITTEE RECOMMENDATION THAT ANY RESTRICTIONS JUSTIFIED FOR BALANCE OF PAYMENTS REASONS BE REMOVED, AND MAY IF APPROPRIATE PROPOSE SUCH A RECOMMENDATION HIMSELF.

4. (A) CAN THE FINNISH DELEGATE PROVIDE HIS GOVERNMENT'S PROJECTIONS OF THE COUNTRY'S IMPORT, EXPORT AND CURRENT ACCOUNT PERFORMANCE FOR 1978, OR DOES THE GOVERNMENT SUBSTANTIALLY AGREE WITH THE IMF PROJECTIONS?

(B) DOES THE GOVERNMENT PLAN ANY NEW MEASURES TO STIMULATE LIMITED OFFICIAL USE  
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DOMESTIC GROWTH IN THE NEXT YEAR? IF SO, WHAT WOULD BE THE EFFECT OF SUCH ACTIONS ON TRADE?

(C) CAN THE FINNISH REPRESENTATIVE PROVIDE AN INDICATION OF THE AMOUNTS BY WHICH THE LICENSING AND QUOTA SYSTEMS MAY HAVE REDUCED IMPORTS IN THE LAST YEAR? ARE THE LICENSING SYSTEMS USED TO RESTRICT THE QUANTITY OF IMPORTS OF GOODS SUBJECT TO LICENSE, OR TO DISCRIMINATE AMONG SOURCES OF SUPPLY FOR SUCH GOODS?

(D) IN VIEW OF THE ENCOURAGING IMPROVEMENTS IN FINLAND'S CURRENT ACCOUNT AND RESERVE POSITION, WILL THE FINNISH AUTHORITIES ESTABLISH A SCHEDULE FOR THE LIBERALIZATION AND ELIMINATION OF THE QRS IMPOSED FOR BOP REASONS?

(E) WE NOTE THAT THE FINNS HAVE REDUCED THE CASH PAYMENT SCHEME COVERAGE FROM 35 OF IMPORTS TO 25 SINCE MARCH 1977. CAN WE EXPECT ANY ACCELERATION IN THIS RATE OF LIBERALIZATION, TO REFLECT THE IMPROVED TRADE PERFORMANCE?

5. BALANCE OF PAYMENTS POSITION AND PROSPECTS. WHILE MOST OF ITS TRADING PARTNERS WERE EXPERIENCING RECESSION IN 1974-75, EXPANSIVE DOMESTIC POLICIES IN FINLAND KEPT THAT COUNTRY'S ECONOMY GROWING AT RELATIVELY RAPID RATES. THE CONSEQUENCES INCLUDED:

6. -- A MAJOR DETERIORATION IN THE CURRENT ACCOUNT

DEFICIT, TO OVER 8 OF GDP IN 1975;

7. -- AN INCREASE IN NET FOREIGN DEBT TO OVER 20 OF GDP;

8. -- A RATE OF INCREASE IN UNIT LABOR COSTS AND CONSUMER PRICES MARKEDLY EXCEEDING THOSE IN COMPETITOR COUNTRIES.

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9. THE GOVERNMENT SUBSEQUENTLY ADOPTED RESTRICTIVE MONETARY AND FISCAL POLICIES TO STRENGTHEN THE BALANCE OF PAYMENTS AND REDUCE INFLATION. BY THE TIME FINLAND LAST HELD BOP CONSULTATIONS WITH GATT IN MAY 1977, THESE POLICIES HAD BEGUN TO HAVE THE DESIRED EFFECTS. BETWEEN 1975 AND 1977, DOMESTIC DEMAND FELL BY 7-8 AND IMPORT VOLUME DECLINED BY OVER 10. AT THE SAME TIME ECONOMIC RECOVERY IN FINLAND'S MAIN TRADING PARTNERS HELPED STIMULATE DEMAND FOR FINNISH EXPORTS, WHICH ROSE 22 OVER THE PERIOD. FINLAND'S CURRENT ACCOUNT TRANSACTIONS THUS HAD AN EXPANSIONARY INFLUENCE OF NEARLY FOUR PERCENTAGE POINTS ON GDP IN 1976 AND 1977, COMPARED WITH A NEGATIVE IMPACT OF 3-1/2 POINTS IN 1975. GDP AS A WHOLE REMAINED STAGNANT OVER THE THREE YEARS, HOWEVER.

10. CONTRACTIONARY FISCAL POLICIES CAUSED A DECLINE IN REAL PERSONAL DISPOSABLE INCOME OF ABOUT 5 IN 1976. IN 1977, THE EFFECT OF GOVERNMENT TRANSACTIONS ON PERSONAL INCOME AND AGGREGATE DEMAND WAS APPROXIMATELY NEUTRAL. IN THE SECOND HALF OF THE YEAR THE GOVERNMENT SHIFTED CAUTIOUSLY TOWARD MORE EXPANSIONARY POLICIES, HOWEVER, SINCE BOTH DOMESTIC AND FOREIGN DEMAND WERE RECOVERING MORE SLOWLY THAN EXPECTED (SEE BELOW).

11. MONETARY POLICY ALSO HAS BEEN QUITE RESTRICTIVE OVER THE PAST TWO AND ONE-HALF YEARS, CHARACTERIZED BY RESTRICTIONS ON COMMERCIAL BANK ACCESS TO CREDIT AT THE CENTRAL BANK, RESTRICTIONS ON LONG-TERM CAPITAL IMPORTS, AND QUOTAS ON EXPANSION OF COMMERCIAL BANK LENDING. AS A RESULT, THE RATE OF INCREASE IN TOTAL CREDIT TO THE PRIVATE SECTOR FELL FROM 23 IN 1975 TO 12 IN 1977.

THESE RESTRICTIONS LED TO A STEEP FALL IN INVESTMENT, CONTINUED STAGNATION IN OUTPUT, AND AN UNPRECEDENTED

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INCREASE IN UNEMPLOYMENT (TO MORE THAN 7 IN EARLY 1978, MORE THAN DOUBLE THE 1975 RATE).

12. THE NEED FOR SOME ECONOMIC STIMULUS LATE IN 1977 THEREFORE WAS CLEAR. BUT THE AUTHORITIES WERE CONSTRAINED BY A 12 INFLATION RATE WHICH, ALTHOUGH LOWER THAN PREVIOUSLY, STILL WAS MUCH TOO HIGH. THE GOVERNMENT THEREFORE IMPLEMENTED A MODEST REFLATIONARY PACKAGE BASED ON SELECTED TAX CUTS AND EMPLOYMENT-CREATING ACTIONS LATE IN 1977, COUPLED WITH WAGE/PRICE RESTRAINTS RUNNING INTO 1979 TO HOLD DOWN INFLATION. EARLY INDICATIONS SO FAR THIS YEAR ARE THAT INCREASES IN UNIT LABOR COSTS ARE RUNNING BELOW THOSE IN OTHER EUROPEAN COUNTRIES, WHILE THE INFLATION RATE IS AT APPROXIMATELY THE SAME LEVEL (8 ) AS THE EXPECTED EUROPEAN AVERAGE.

13. FINNISH AUTHORITIES HAVE USED EXCHANGE RATE POLICY CAUTIOUSLY, LEST DEVALUATION AGGRAVATE INFLATION AND INCREASE THE FOREIGN DEBT BURDEN OF THE PRIVATE SECTOR. IN RESPONSE TO DEVALUATIONS BY SWEDEN, NORWAY AND DENMARK, HOWEVER, THE MARKKA WAS DEVALUED BY 5.7 IN APRIL, 1977, AND BY ANOTHER 3 IN SEPTEMBER. BEGINNING IN NOVEMBER, THE VALUE OF THE MARKKA WAS EXPRESSED IN TERMS OF AN INDEX OF CURRENCIES OF FINLAND'S TRADING PARTNERS. ANOTHER DEVALUATION OF 8 IN FEBRUARY, 1978, WAS INTENDED TO REFLECT THE DECLINE IN VALUE OF THE DOLLAR AND TO ENCOURAGE CAPITAL INFLOWS.

14. FINLAND'S DEFICIT ON CURRENT ACCOUNT HAS FALLEN FROM ITS 1975 HIGH TO ABOUT 1/2 OF GDP IN 1977, WHEN A TRADE SURPLUS WAS REGISTERED FOR THE FIRST TIME SINCE 1968. THE IMPROVEMENT WAS DUE TO IMPROVING FOREIGN DEMAND FOR FINLAND'S EXPORTS AND TO RECESSION-DEPRESSED DEMAND FOR IMPORTS. SIMILAR CONDITIONS SHOULD YIELD FURTHER IMPROVEMENT BOTH IN THE TRADE BALANCE AND IN THE CURRENT ACCOUNT IN 1978.

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15. THE CAPITAL ACCOUNT SHIFTED INTO DEFICIT FOR THE YEAR 1977, HELPING TO BRING ON THE FEBRUARY DEVALUATION. AS A RESULT OF THE DEVALUATION AND INCREASED GOVERNMENT BORROWING ABROAD TO FINANCE ITS BUDGET DEFICIT, THE CAPITAL ACCOUNT SHOULD BE BACK IN SUBSTANTIAL SURPLUS AGAIN IN 1978. RESERVES ALREADY HAVE RISEN FROM ABOUT \$500 MILLION AT THE END OF 1977 TO ABOUT \$750 MILLION. FINLAND'S NET EXTERNAL DEBT HAS RISEN TO 23 OF GDP, HOWEVER, AND DEBT SERVICE REPRESENTS AN INCREASING DRAIN ON THE CURRENT ACCOUNT.

16. FINLAND MAINTAINS A SYSTEM OF LICENSING AND QUOTAS FOR CERTAIN IMPORTS WHICH ARE JUSTIFIED BY THE FINNS ON BOP GROUNDS. THE IMF ARGUES THAT "IT WILL BECOME DIFFICULT TO JUSTIFY RESTRAINTS ON BOP GROUNDS IF THE BOP

SITUATION CONTINUES TO IMPROVE." IN ADDITION, CASH PAYMENTS ARE REQUIRED FOR CERTAIN IMPORTS WHICH THE FINNS SAY MATCH CORRESPONDING REQUIREMENTS FOR DOMESTIC SALES DESIGNED TO REDUCE LIQUIDITY.

17. SYSTEM AND METHODS OF RESTRICTIONS. THE IMPORT SYSTEM OF FINLAND COMPRISES ESSENTIALLY TWO MECHANISMS -- LICENSING AND QUOTA RESTRICTIONS AND THE CASH PAYMENTS REQUIREMENT.

18. A SHORT LIST OF COMMODITIES CONSISTING OF CERTAIN AGRICULTURAL PRODUCTS (MOSTLY FOODSTUFFS), CERTAIN PETROLEUM PRODUCTS, AND SILVER AND GOLD, ARE SUBJECT TO A GLOBAL QUOTA PROGRAM. THIS LIST IS QUITE LIMITED AND CORRESPONDS TO LESS THAN 1 OF TOTAL IMPORTS. A SECOND AND MORE EXTENSIVE LIST OF COMMODITIES ARE SUBJECT TO INDIVIDUAL LICENSING REQUIREMENTS. THIS LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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LIST INCLUDES BOTH CONSUMER GOODS (PRIMARILY AGRICULTURAL PRODUCTS, PROCESSED GOODS AND PETROLEUM PRODUCTS) AND DURABLE GOODS (PRIMARILY DOMESTIC ELECTRICAL EQUIPMENT, MARINE ENGINES, MUSICAL INSTRUMENTS, AND VARIOUS TRANSPORTATION EQUIPMENT). THIS LIST CORRESPONDS TO APPROXIMATELY 12 OF FINNISH IMPORTS.

19. A CERTAIN AMOUNT OF PREFERENTIAL TREATMENT IS ACCORDED GOODS FROM THE USSR AND FROM SIGNATORIES TO THE KEVSOS AGREEMENTS (BULGARIA, CZECHOSLOVAKIA, GDR AND HUNGARY). GOODS OTHERWISE SUBJECT TO GLOBAL QUOTA LIMITATIONS ARE, WITH CERTAIN EXCEPTIONS, SUBJECT ONLY TO LICENSING FROM THOSE COUNTRIES.

20. ALL COMMODITIES NOT APPEARING ON EITHER THE GLOBAL QUOTA OR THE INDIVIDUAL LICENSING LISTS MAY BE IMPORTED FREELY FROM THE UNITED STATES AND MOST OTHER COUNTRIES.

21. SINCE 1973 THE BANK OF FINLAND HAS IMPOSED A "CASH PAYMENT" SCHEME REQUIRING THAT FOR SPECIFIED COMMODITIES FULL PAYMENT MUST BE MADE THROUGH AN AUTHORIZED BANK OR THAT AN AMOUNT EQUIVALENT TO THE PURCHASE PRICE BE DEPOSITED WITH THE BANK OF FINLAND BEFORE THE GOODS CAN BE CLEARED THROUGH CUSTOMS. THIS REQUIREMENT AFFECTS PRIMARILY CONSUMER GOODS, SUCH AS AUTOMOBILES AND OTHER CONSUMER DURABLES, BUT ALSO INCLUDES SOME RAW MATERIALS

AND PRODUCTION EQUIPMENT. IN MARCH 1977 THIS LIST COMPRISED SOME 35 OF FINNISH IMPORTS. IN JULY OF 1977 THIS COVERAGE WAS REDUCED TO APPROXIMATELY 30 OF IMPORTS DUE TO THE REMOVAL OF SOME RAW MATERIALS AND INDUSTRIAL PRODUCTS FROM THE LIST. IN MAY OF 1978 THE COVERAGE WAS

REDUCED TO 25 OF IMPORTS WHEN THE BANK OF FINLAND  
REMOVED FROM THE LIST CERTAIN RAW MATERIALS FOR THE  
FOOD INDUSTRY, FOOD PRODUCTS, AND VARIOUS INDUSTRIAL  
RAW MATERIALS, PRODUCTION GOODS AND MACHINERY.  
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22. NOTE: PERCENT SIGNS ARE MISSING FROM ABOVE TEXT  
AS OC/T SCANNER DOES NOT READ PERCENT SYMBOL INADVERTENTLY  
USED IN TYPING CABLE FORM. MISSION SHOULD CONSULT DRAFT  
HANDCARRIED BY ALLEMAN IN CASE OF UNCLARITY. VANCE

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## Message Attributes

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**Capture Date:** 26 sep 1999  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** TRADE, MEETINGS, BALANCE OF PAYMENTS, COMMITTEES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 22 may 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1978STATE130151  
**Document Source:** ADS  
**Document Unique ID:** 00  
**Drafter:** TREASURY:ELBARBER  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** n/a  
**Expiration:**  
**Film Number:** D780216-0422  
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**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 6  
**Previous Channel Indicators:**  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
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**Review Event:**  
**Review Exemptions:** n/a  
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**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** GATT BOP CONSULTATION WITH FINLAND  
**TAGS:** ETRD, FI, GATT  
**To:** GENEVA INFO HELSINKI  
**Type:** TE  
**vdkgvwkey:** odbc://SAS/SAS.dbo.SAS\_Docs/987a3895-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014